KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

EFFECT OF IFRS COMPLIANCE ON THE PROFITABILITY OF LISTED BANKS IN GHANA

BY

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS, COLLEGE OF HUMANITIES AND SOCIAL SCIENCES KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI, GHANA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

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DECLARATION

I sincerely declare that with the exception of any references to authors and their books, the entire research was undertaken by me. The research work and its in-depth analysis are wholly different from all previous work submitted to the department for the award of degrees.

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ABSTRACT

This study investigates the effects of International Financial Reporting Standards (IFRS) compliance on the profitability of banks listed on the Ghana Stock Exchange (GSE). This study specifically seeks to achieve certain objectives of which the main aim is to examine whether a listed bank in Ghana's compliance with IFRS influences its profitability. Aside, it seeks to examine the relationship between profitability and the following company attributes: bank's capital, bank's size, and bank's operating expenses. This study employed panel data to analyze annual reports of all listed banks over a 5-year reporting period from 2016 to 2020. A dichotomous scoring approach was employed to measure the compliance levels of the listed banks. Each company's total score for IFRS compliance was derived by dividing the total number of standards complied with by the maximum number of standards expected to be complied with in their annual reports. The analysis findings revealed that IFRS disclosure compliance had an average score of 83.8% implying a relatively high level of compliance with IFRS by banks listed on the Ghana Stock Exchange. Furthermore, the study revealed that IFRS compliance, bank size, bank capital, and bank's operating expenses have positive significant impacts on the profitability of banks when measured with Return on Asset (RoA). IFRS compliance was revealed to have a significant positive impact on the ROE of these banks whereas the bank's size, bank's capital, and bank's operating expenses also showed negative but significant impacts on the Return on Equity (RoE) of these banks. This study realised the high IFRS compliance levels of listed banks in Ghana in their annual reports and recommended that other banks and non-financial institutions listed or not be given strict measures to ensure high IFRS compliance in such entities and or different industries as well.

DEDICATION

I dedicate this work first of all, to God who gave me life and graced me in the various spheres of life to date. This work is also dedicated in a special way to my father, Mr. Samuel Ntow who persistently encouraged me to do whatever it takes to pursue a postgraduate degree. Finally, this work is dedicated to the rest of my family and friends for their patience, unconditional love, and support in my educational pursuit.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Users of accounting information rely on financial statements, particularly financial reports from publicly traded corporations to make economic judgments. Financial statements serve as the foundation for such decision-making processes thus, their higher dependability has prompted the setting up of accounting standards. Accounting standards enable financial statements comparison of organizations and give the financial statements more trust with users. Listed companies must comply with IFRS while compiling financial statements. Nations have tried to control the creation of financial accounts to fit the circumstances in which they find themselves. As time passed, financial market globalization became a more pressing issue, necessitating the need for financial statements from companies in other nations to be recognized, comparable, and understood. It became necessary to develop specific high-quality accounting standards that policymakers, preparers, and standard setters could accept. Choi and Meek (2005) stipulate that greater amount of quality of financial statements is required despite a growing international audience and lack of familiarity regarding various domestic accounting standards used for the motive of preparing financial statements. This demonstrates that Eiteman, Stonehill, and Moffett's (2007) “assertion that heterogeneous financial accounting information assists investors in the most effective global diversification of their portfolios is true”. Organizations are increasingly discovering the advantages of a standardized financial reporting structure based on generally accepted accounting standards as drivers of globalization push countries to embrace cross-border investment and corporate expansion (Marfo-Yiadom & Atsunyo, 2014). Before the implementation of IAS/IFRS, Ghana was using the Ghana National Accounting Standards (GNAS).

Following a suggestion from the World Bank on a pilot survey they carried out to evaluate the accounting and auditing environment in Ghana, Ghana moved to both standards. The World Bank's study from 2004 found that Ghana's National Accounting Standards were out-of-date and different from that of their international partners.

According to Marfo-Yiadom and Atsunyo (2014), Ghana adopted the IFRS on January 1, 2007, to replace its antiquated Ghana National Accounting standards and encourage faster economic growth through the private sector. A United Nations report on Trade and Development indicated that by December 2007, publicly traded financial and nonfinancial institutions would adopt International Financial Reporting Standards. The deadline for implementing IFRS by firms was in 2009. In comparison with how things were in the early years, the banking industry's operating procedures have undergone significant change in the new millennium (Hussain & Bhatti, 2010). Having an adequate understanding regarding the potential bearing of IFRS on the accounting practices of banks is essential for stakeholders who are in any way involved in the financial reporting of banks. Regulators, financial analysts, bankers, auditors, accountants, investors, etc. are some of these stakeholders. Given that stakeholders now have access to more financial data due to ratio analysis, the interpretation of banks' IFRS-compliant financial reporting has a considerable impact. (Nwaogwugwu, 2020). Empirical research about the implications of international financial reporting standards on disclosure has recently been completed, including those by Assenso-Okofo, Ali, and Ahmed (2011). AboagyeOtchere and Agbeibor (2012) evaluated whether international financial reporting requirements were appropriate for SMEs. They found that because SMEs in Ghana have limited international structures and operations, there is no demand for information on financial reporting that is comparable globally. Additionally, small firms do not usually receive requests for this information. The effect of IFRS compliance on the profitability of Ghana's listed banks has not received much examination, nevertheless. There is therefore limited data on which to base an examination of how IFRS compliance affects the profitability of Ghana's listed banks.

1.2 Problem Statement

According to researchers, the structure and substance of accounting standards in developing nations are demonstrated by the nature of the domestic business environment and institutional frameworks. The assimilation of IFRS is difficult in developing nations because of weak institutions and unstable economic and political contexts (Muhammad, 2012). Banks tend to be the primary financial institutions in almost all developing nations. It is therefore critical to examine how they are faring in terms of implementing and adhering to IFRS. It has been observed on Ghanaian banks over the past years as almost always showing operational ineffectiveness, undercapitalization, and weak disclosures in their financial statements and this had effects on the banks' profitability or performance. Due to this, the IFRS was adopted. With effective implementation and adherence, banks in Ghana will be able to report their finances accurately and transparently, which will reduce the number of weak disclosures in their financial statements.

According to Stent, Bradbury and Hooks, (2013) implementation of IFRS is a crucial point in the anals of accounting with potential effects on the capital markets and the standard of accounting data. Quality disclosure and reporting, according to Leuz and Wysocki (2016), eliminate knowledge asymmetries that would otherwise cause frictions when raising outside funding for investments. Several researchers have expressed opinions on how International Financial Reporting Standards (IFRS) has improved transparency (Hung & Subramanyam, 2004); reduced capital expenses, heightened international speculations (Emeni, Uwuigbe, Uwuigbe, & Erin, 2016) and improved comparability of accounting reports (De George, Li, & Shiyakumar, 2016). All these in the long run, undoubtedly, influence the performance or profitability of firms effectively complying with International Financial Reporting Standards (IFRS). While several government rules have been used to keep the banking system stable, financial instrument developments have been moving at a faster pace with regulatory agencies falling behind and attempting to catch up with the financial market. The adoption of the IFRS can be of benefit to banks in so many ways. Financial assets, financial liabilities, and various contracts for the purchase and sale of non-financial objects are all categorized and measured differently by different organizations. IFRS 9 examines financial instruments and offers guidelines. This standard significantly enhances or has an impact on bank financial reporting. For example, IFRS 9 has significantly increased the size of banks' credit loss provisions, which will increase their resistance to unfavourable economic developments.

There is still a dearth of knowledge on IFRS compliance, particularly in developing nations (Lin, Riccarch, & Wang, 2012). The mentioned research below also fell short in shedding light on this aspect of IFRS compliance and its effects on the profitability of listed banks. Determinants and consequences of heterogeneous International Financial Reporting Standards (IFRS) compliance levels (Lin, Riccarch, & Wang, 2012); IFRS compliance, corporate governance and financial reporting quality of non-financial firms listed on the GSE (Abeka, Agyemang and Mbir, 2020), (Agyei-Boapeah et. al 2020) IFRS adoption and company value: African evidence; Evidence of how IFRS adoption has affected the quality of financial reporting from Ghana's listed industrial firms

(Mensah, 2021). The consequences of IFRS compliance on Ghana's listed banks have not yet been addressed in any existing literature. This ignores other factors that may influence how profitable banks are in relation to IFRS compliance. By examining the impact that compliance with IFRS has on the profitability of Ghana's listed banks with a focus on the firm's unique characteristics such as IFRS compliance, capital, bank size, and operating expenses, the study aims to differentiate from prior research. Taking this into account, the effects of IFRS compliance of banks in Ghana, specifically those listed on the Ghana Stock Exchange.

1.3 Objectives of the Study

The evaluation of the impact of International Financial Reporting Standards (IFRS) on the financial performance of Ghana's listed banks is the study's main objective.

Specifically, this study aims to achieve the following objectives:

i. To evaluate the effect of IFRS compliance on listed bank’s equity returns. ii. To examine the effect of IFRS compliance on listed banks’ asset returns.

1.4 Research Questions

i. What is the relationship between IFRS compliance and listed banks’ equity returns?
ii. What is the relationship between IFRS compliance and listed banks’ asset returns?

1.5 Significance of Study

The anticipated study results would demonstrate the influence that IFRS compliance has on the operation of Ghana's listed banks, notably their profitability. The study will educate these organizations' managers on the value of strictly and correctly complying with worldwide financial reporting requirements. Because it will reveal the advantages that businesses gain from compliance, this research is crucial for accounting policymakers in developing regulations intended to raise awareness of and encourage banks to strictly abide by IFRS. This study will be helpful to other academics who are interested in researching International Financial Reporting Standards (IFRS).

1.6 Scope of the Study

This study focuses on how Ghana's listed banks' profitability is affected by compliance with the International Financial Reporting Standards. The study solely took into account banks that are listed on the Ghana Stock Exchange.

1.7 Brief Methodology

This study involved analyzing the yearly financial reports of banks from 2016 to 2020 that are listed on the Ghana Stock Exchange. The examination of the relationship between various factors including IFRS disclosure and expenditures required the use of a quantitative research design. In order to assess how much bank-specific characteristics are affecting the profitability of listed banks in Ghana; a panel analysis was conducted on gathered data as part of this study.

To evaluate the sampled firms' IFRS disclosure policies, a dichotomous scoring approach (1 = disclosure item and 0 = non-disclosure item) was used. The main research tool for analyzing the data gathered will be the Statistical Package for Social Sciences (SPSS), and the study will take care to respect the pertinent ethical standards throughout the data collection, analysis, and reporting phases.

1.8 Limitation of Study

The conduction of this study is lasted for a duration of about three months before conclusions were drawn on the findings of the study. The study was again based on only banks listed on the Ghana Stock Exchange. Although a wider scope would bring up more conclusive findings, more resources such as time and finance was limited. This research work took into consideration only four variables (bank's IFRS compliance, bank's capital, bank size, and bank's operating expenses) whiles including more variables could also help make more informed decisios.

1.9 Organization of Study

The five chapters of the study are broken down as follows:

The first chapter provides an overview of this study which begins with introducing it along with some contextual details before outlining its underlying theme or issue. The significance of the study is emphasized by elucidating its objectives and research questions. Theoretical and empirical literature extracted from comparable studies are examined in the second chapter known as Literature Review. Chapter three delves into discussing methodologies applied for conducting this research. Chapter four presents an analysis of our research results along with an explanation detailing how we conducted both data collection and assessments. Finally, concluding with a summary of the study in Chapter 5 offers recommendations for future studies as well as real-world applications.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant material on how Ghana's listed banks' profitability is impacted by international financial reporting standards. Reviewing pertinent literature related to this research is necessary for the study to be completed successfully. This part of the study includes a review of the theoretical and empirical literature.

2.2 Conceptual Literature Review

2.2.1 Concept of International Reporting Standards and its Adoption in Ghana

The international standard for preparing Financial Reports of Public Companies is increasingly being recognized worldwide and it is none other than the International Financial Reporting Standards (IFRS) created by the International Accounting Standards Board (IASB). The suggestion to implement global accounting guidelines was first introduced towards the end of the 1950s as a response to a rise in cross-border capital flow caused by greater financial integration post WWII (Ali Uyar, Merve Kılıç & Başak Ataman Gökçen (2016).

The Harmonization of Accounting Standards was the focus of prior initiatives. Simply put, this refers to a reduction in the disparity between the accounting ideas and tenets as in many financial markets across the globe. In the 1990s, the idea of integration replaced the idea of uniformity which essentially meant developing strong worldwide accounting standards for use in nearly all of the main global capital markets (Ofoegbu and Odoemelam, 2018). There is little information available about accounting methods in Ghana during the pre-colonial era, particularly regarding the exact introduction of accounting in Ghana. The panel took note of Act 170 of Parliament, which was passed in 1963 and is known as Ghana's primary accounting statute. It founded the Institute of Chartered Accountants, Ghana (ICAG) and is recognized as a landmark piece of legislation. The primary role of the Ghana National Accounting Standards Board (GNASB) was to develop and approve accounting standards for public use while promoting their acceptance among the general population. This body was set up by ICAG (Appiah et al., 2016). The Adoption of IFRS in 2007 by Ghana was an important step towards global financial reporting standards. The Ghana National Accounting

Standards (GNAS) were already being used before IAS/IFRS became applicable in Ghana. However, GNAS does not include all the accounting standards that are covered by International Accounting Standards. These standards include but are not limited to IAS 19 (Employee Benefit), IAS 32 (Financial Instruments, Disclosure, and Presentation), now known as IFRS 9, IAS 33 (Earnings Per Share), IAS 34 (Interim Financial Reporting), IAS 35 (Discontinuing Operation), IAS 36 (Impairment of Assets), and IAS 37 (Provision, Contingent Liabilities and Contingent Assets). Ghana implemented IFRS on January 1st, 2007, as a result of the World Bank's Reports on Standards and Codes [ROSC], which were released in March 2006 (The World Bank, 2010). According to Boateng et al. (2014), as a result, investors throughout the world now have better confidence in and acceptance of Ghana's financial reporting methods. Over time, IFRS has changed, which has caused some standards to shift. IAS 1 and IFRS 9, among others, are the standards that banks utilize the most.

2.2.2 An Overview of the Ghanaian Banking Industry

Ghana's financial history gained momentum with the establishment in 1953 of Bank of Ghana thanks to support from the Bank of England (Antwi 2022). In the past, the Bank of Ghana functioned as an issuing bank and then separated from the emerging Ghana Commercial Bank which went on to become the leading commercial finance institution in possession of all major governmental agencies' financial arrangements. Ghana became independent from Great Britain on March 6, 1957. As expected, authority over currency management was given to the Bank of Ghana, and in July 1958, a new national currency known as the Cedi was issued to replace the existing West African banknotes. After assuming the position and duties of government bankers, the Ghana Commercial Bank started to oversee the finances of the bulk of governmental entities and public corporations. Since its beginnings, the banking sector has seen numerous changes. The most recent one took place in the years 2016 to 2018. As of August 2017, there were 35 commercial banks in with active licenses. In only two years, this number had decreased to 23. The fascinating events that occurred over the course of the two years were not accurately captured in the simplistic description of this severe decline. The Bank of Ghana, Ghana's central bank, and the corporate governance practices used by the collapsed banks have both received criticism in the years since the clean-up. Owusu Banahene (2018) pointed out that, in addition to poor corporate governance and regulatory flaws, a disregard for ethics and morals is another factor contributing to the sector's demise. These allegations failed to provide a clear justification for the managers' and shareholders' actions that sparked the crisis or make recommendations for how the nation's banks should be managed more skillfully to avert further systemic calamities.

Due to a paucity of relevant literature on the topic, corporate governance norms in Ghanaian enterprises have been characterized by a lack of transparency. The topic is covered in further depth in Adegbite (2012). The audit committee, shareholder rights, board accountability, board makeup, and board structure are the main topics of Adegbite's research.

2.3 Theoretical Literature Review

The International Financial Reporting Standards (IFRS) compliance is a complex phenomenon that cannot be fully explained or demonstrated by a single explanation.

This is a result of the fact that there are already a few theories about IFRS compliance and its effects, but it was difficult to combine all of the empirical data into a single theoretical framework. As a result, the study looked at a few theories surrounding this subject and provided viewpoints on them. The legitimacy theory, agency theory, and signaling theory are three of these theories.

2.3.1 Signaling Theory

The signaling hypothesis was created by Spence (1973) to identify information gaps in the labor market and to explain behavior. Reduced information asymmetry between two parties is the basic objective of signaling theory (Spence, 2002). This concept is useful for characterizing behavior as well. Every market is susceptible to experiencing an informational imbalance at some point (Morris, 1987). For example, a college football coach may visit nearby high schools in a Hummer Limousine decked out with the school's logo to promote a supportive environment to prospective recruits (Turban & Cable, 2003), or the owners of a startup business may appoint a diverse group of reputable directors to their board in order to persuade potential investors that the business is legitimate (Filatotchev & Bishop, 2002). The examples show how one party utilizes their behaviour to make a specific point to other parties about their own characteristics. The Signaling hypothesis contends that job seekers should focus on the signals rather than the observable and constant attributes, like education, that they have little control over (Hallberg & Persson, 2011). In his seminal work on labour markets, Spence (1973), detailed how a job seeker may behave in ways to decrease the knowledge asymmetry that hinders potential employers' hiring ability. Spence went on to say that high-quality job candidates set themselves apart from low-quality candidates through the costly signal of dedicated higher education. As a result, firms can lessen the knowledge gap between themselves and their investors by sending out signals. To provide more information to investors, these signals are disseminated (Spence, 1973). International Financial Reporting Standards (IFRS)-compliant businesses build a reputation and an image that express their goals and can be used in advertising to obtain a competitive advantage (Campbell, Shirvers & Bohmbach-Saager, 2001). Ghana's listed banks can thus take advantage of the attention that their adoption and compliance with International Financial Reporting Standards (IFRS) is bringing them. A signaling theory aligned with financial disclosure claims that managers can use financial statements to convey their expectations and goals. The adoption of IFRS may inform market participants that a company is prepared to provide more information or follow more stringent accounting rules, both of which will be helpful to the company. International Financial Reporting Standards (IFRS) will make the annual report simpler for them to understand than if national accounting standards were employed to construct it, which will help companies attract more foreign investors (Campbell, Shirvers & Bohmbach-Saager, 2001).

2.3.2 Agency Theory

In an agency relationship, one or more persons (the principal) select another person (the agent) to carry out a specified duty on their behalf and assign some of their decisionmaking authority to the agent, according to Jensen and Meckling (1976). A person acting as an agent is chosen by one or more people who act as principals and assign them specific duties while delegating some of their decision-making authority. This is how Jensen and Meckling (1976) describe the concept of an agency relationship. An agreement between two or more parties is referred to as an agency agreement in agency theory, where one party can be viewed as the investors (principal/shareholders) and the other as the company (agent/managers). The business is acting in the interests of the investors. Companies can also attract more foreign investors by advertising their adoption and adherence to International Financial Reporting Rules (IFRS), as these investors will be more adept at understanding the annual report than they would be if it complied with national accounting standards (Campbell, Shirvers & Bohmbach-Saager, 2001). Both the principal and the agent will be liable for the costs associated with monitoring and bonding because the principal cannot guarantee that the agent will make the best decisions for him at no cost. The expenses incurred to make sure that the operations of the company (management) are in line with the interests of the investors are known as monitoring costs (shareholders). These expenses ensure that behaviour maximizes shareholder profit and are transmitted from the principal to the agent through contracting over time. Bonding costs are also related to when an agent (firm) agrees to contractual obligations that limit the agency's ability to do business. Monitoring costs are re-allocated in the manager-shareholder relationship by changing the agent's stipend package according to the ostensible amount of monitoring necessary. This theory suggests that annual reports could be a strategy for addressing the knowledge asymmetry between a corporation and its investors (Deegan & Unerman, 2006). The agency theory, which maintains that accounting decisions and disclosure are used to reduce agency costs, has been used to examine managers' accounting decisions and annual report disclosure. This approach has also been used to study the information asymmetry (difference in information between the two parties) between agents and principals, who are managers and hence the insiders (being the shareholders who are outside the firm and less informed). Because there is a lower chance of surprises when the annual report is designed in a similar manner, investors will feel more comfortable interacting with the company (Hallberg & Persson, 2011). Because the company has access to more information than its investors do, there is a great deal of uncertainty for the investors. To reduce discrepancies between companies' yearly reports, the International Financial Reporting Standards (IFRS) unified accounting system was devised (Ali, 2005; Whittington, 2005). If ownership is distributed, businesses are more likely to produce annual reports that their readers will understand (Jeanjean, Lesage, & Stolowy, 2010). According to the claim made by Verrecchia in 1983, higher liquidity and reduced capital cost in the company will result from improved annual report understanding, which will encourage more investors (Shareholders) to participate in the company (Ali, 2005;

Whittington, 2005). Businesses will be able to attract more investors by putting International Financial Reporting Standards (IFRS) into practice, which will raise equity and reduce the need for liabilities. In other words, debt will decrease if more equity is drawn (Hallberg & Persson, 2011). Ghana's listed banks will become more profitable if the International Financial Reporting Standards are adopted and adhered to (IFRS). According to the Agency Theory, investors are very likely to raid a firm when annual reports and financial statements are created to the best of their knowledge and comprehension (in this example, listed banks in Ghana). As a result, debt or the need for liabilities will decline or vanish, raising the equity of institutions with stock exchange listings.

2.3.3 Legitimacy Theory

According to Suchman (1995), legitimacy is the widely held conviction or presumption that, within a socially formed framework of norms, values, beliefs, and definitions, an entity's acts are favoured, lawful, or acceptable. This theory goes on to state that the firm must regard its values as consistent as the society it operates in in order to have a right to exist (Magness, 2006; Cho, Philips, Hageman, & Patten, 2009). From the above, it can be said that going by the social expectations of the firm can go a long way to breed positive impacts on the operations of the firms. As a result, businesses risk losing their reputation as respectable companies if they take activities that violate societal norms, values, beliefs, or definitions. A business with a good reputation has a better chance of surviving. Management must make disclosures that will have a good impact on the society's perception of the company because there is a connection between a company's legitimacy and that perception (Cormier & Gordon, 2001). External opinions of businesses may be managed by corporate disclosure policies. (Deegan, 2002). The legitimacy theory was put forth by Woodward, Edwards, and Birkin (1996) as a viable paradigm for reporting on responsibility and legitimacy. Despite the fact that it is most frequently used to explain social and environmental report disclosures, the legitimacy theory can be applied to corporate reports to engage with shareholders and emphasize the significance of this relationship. According to Tsang, the concept of organizational legitimacy is important for examining the behaviour of corporate reports (2001). Businesses must uphold the social agreements, which can be interpreted as acting in a manner consistent with the expectations of investors (Phillipe, 2008). Companies may feel pressured to follow the International Financial Reporting Standards (IFRS) if investors require it in order to maintain their credibility. If IFRS is given credibility, businesses will continue to adhere to it strictly.

2.4 Empirical Literature Review

This part of the study aims to review earlier studies, as well as the approaches taken by their authors and the findings they arrived at. In the past, researchers have attempted to establish relationships between firm characteristics (such as capital, size, operating expenses, and IFRS compliance) and the degree to which enterprises follow international financial reporting standards (IFRS).

2.4.1 International Financial Reporting Standards (IFRS) and Profitability

A study was carried out by Ironkwe and Oglekwu in 2016 to examine the correlation between International Financial Reporting Standards (IFRS) and corporate performance of listed companies in Nigeria. Analysed finances of organisations revealed increased finacial succes through adopting IFRS. Adopting the International Financial Reporting Standards (IFRS) is crucial for firms if they want to achieve good business performance, and to save expenses on producing multiple sets of accounts for different

IFRS-compliant countries' national jurisdictions, multinational companies should adopt the IFRS.

A fact-finding investigation was conducted by Abata (2015) on the effect of International Financial Reporting Standards (IFRS) on Financial Reporting Practices in Nigeria. Abata's fact-finding investigation (2015) focused mostly on the effect of International Financial Reporting Standards (IFRS) on Nigerian Financial Reporting Practices. It is claimed that IFRS gives regulators information that is far more accurate than GAAP. The study's findings showed that financial reports prepared in accordance with IFRS promoted accurate financial reporting and foreign investment more effectively than those prepared in accordance with the formerly prevalent Generally Accepted Accounting Principles (GAAP). Additionally, they improved best practices inside an organization.

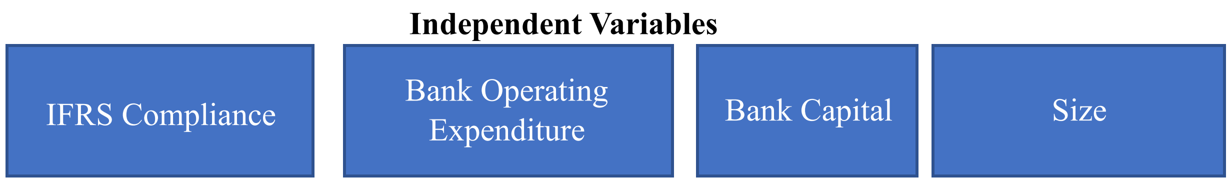
Muhammad (2012) examined how the performance of Nigerian businesses was impacted by the adoption of International Financial Reporting Standards (IFRS). In the research, Muhammad found that businesses were reporting losses more frequently than they were before the execution of IFRS. Incorporating IFRS raises the bar for accounting, according to the study's result. Additionally, companies frequently report earnings per share (EPS) and other profitability metrics with much greater values. In a study published in 2017, Ozili (2017) concentrated on public and unlisted banks in Africa and looked at capital requirements and bank profitability. The major conclusions of this study demonstrated that the calculated coefficient for Total Regulatory Capital (TRC) in static and dynamic models is statistically significant and favorable. This demonstrates that the relationship between regulatory capital and ROA is positive when listed banks have adequate regulatory capital relative to non-listed banks. Because the resulting Total Regulatory Capital (TRC) coefficient is positive, statistically significant, and positive for all institutions, higher total capital regulatory ratios may be linked to higher profitability for listed banks.

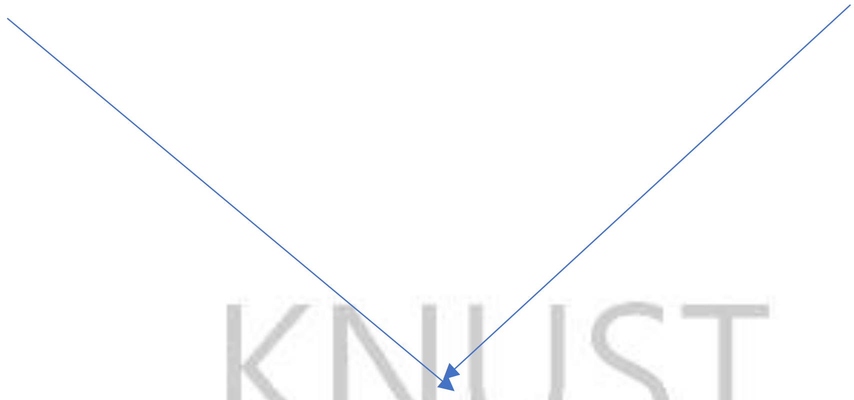
The net interest margin and profitability of Tunisian banks were examined in Ben Naceur and Goaied's (2016) study in connection to bank traits, financial structure, and macroeconomic factors from 2000 to 2010. The expansion of the stock market throughout the study period had a favorable impact on bank profitability, and the study found a negative association between bank size and profitability. Another finding of the study demonstrated that macroeconomic conditions had a minimal bearing on the profitability of Tunisian banks. Numerous research on IFRS and its adoption have been conducted, but none of them have examined how IFRS compliance affects the profitability of listed banks in Ghana. By examining how IFRS compliance affects listed banks in Ghana's profitability in terms of return on equity and return on asset, this study fills the gap.

2.5 Conceptual framework

The following conceptual framework was created for this study in order to illustrate the relationship between IFRS compliance, bank operating costs, bank capital, and bank size and profitability.

Figure 1: Conceptual Framework





(ROA, ROE)

Dependent Variable

Source: Author Self- Construct

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1 Introduction

According to Wahyuni (2012), the operational structure of the inquiry serves as the research methodology. The research technique and methodology employed in this study are covered in detail in this chapter. The procedures, strategies, and tools the researcher employed to get the data are discussed in this chapter. The research design, sampling approach, sample size, data collecting, and data analysis are all covered in this chapter.

3.2 Research Design

The research design, often referred to as the study's "blueprint," specifies how the investigation would be organized. It guides the entire process of the study in fulfilment of the research's objectives, that is the data collection, analysis and reporting (Creswell, W. John & Creswell, 2018; Sileyew, 2019). Research design somewhat comes under the research paradigm so while research is inherently an inquiry about the world and how things work the research paradigm can be thought of as a worldview or in more detail- how one views the world which determines how one relates with the world (Shah and Al-Bargi, 2013; Makombe, 2017). When applied to the field of research the research paradigm essentially seeks to explore what is to be known and how the object of inquiry relates with the researcher and then finally the approach to find the needed answers (Rehman and Alharthi, 2016; Makombe, 2017). This study used a quantitative research design as its methodology. This choice was made because of the inherent ability of the quantitative research design to adopt relevant tools that enhance the factual and accurate measurement of objectives (Claydon, 2015; Pandey and Pandey, 2021). Quantitative design was employed in this study as it was how numerical data was acquired to examine the variables (IFRS compliance, banks' capital, bank size, and banks' operating expenses). The study analyzed complaints from a five-year span using a panel data (2016-2020).

3.3 Population

One of the key things that sits at the centre of research is finding or knowing the object of the objective- that is who or what is being studied. The study's population refers to the entire or collective group of objects that the study seeks to examine or gain information about (Pandey and Pandey, 2021). Ten (10) banks were drawn from the Ghana Stock Exchange, which served as the study's full population and sample size.

3.4 Data Collection

In keeping with the objective of this study, secondary data were used as the main source of information. The legal requirement for professionally audited financial reports for publicly traded companies in Ghana increases the reliability of the data. The annual accounts of the listed banks for the five-year period between 2016 and 2020 served as the study's data sources.

3.5 Data Analysis

The conditional expectation of the dependent variable given the predictive factors was estimated using regression analysis. When listed banks follow IFRS, it is anticipated that profitability will be impacted by IFRS compliance, bank capital, bank size, and operational expenditures (IFRS).

3.6 Model Specification

The conditional expectation of the dependent variable given the predictive factors was estimated using regression analysis. When listed banks follow IFRS, it is anticipated that profitability will be impacted by IFRS compliance, bank capital, bank size, and operational expenditures (IFRS).

The regression equation is as follows:

$$ROE_{it}=\alpha_0+\beta_1 IFRS_{it}+\beta_2 CAP_{it}+\beta_3 SIZE_{it}+\beta_4 EXP_{it}+\varepsilon_i$$

$$ROA_{it}=\alpha_0+\beta_1 IFRS_{it}+\beta_2 CAP_{it}+\beta_3 SIZE_{it}+\beta_4 EXP_{it}+\varepsilon_i$$

ROE_{it} , ROA_{it}, was each used as a proxy for bank profitability, IFRS as a proxy for International Financial Reporting Standards, in the same way, CAP as a proxy for the bank's capital, SIZE as a proxy for the bank's size, EXP was used as a proxy for bank's operating expenses and α_0 used as a proxy for the constant of the equation. Where the time dimension is shown by the subscript t, the cross-sectional dimension across banks is presented by the subscript I and it represents the error term. As was already indicated, the main objective of the study is to ascertain the impact of International Financial Reporting Standards (IFRS) compliance on the profitability of Ghana's listed banks.

3.7 Variable Description and Measurement

3.7.1 Dependesnt Variable

Banks' profitability as measured with return on equity (ROE) and return on asset (ROA)

Independent Variables

This study uses four classifications to describe the independent variables -bank capital, company size, bank operating expenses and IFRS compliance under Company-specific attributes. The short or long-term debt to total assets ratio is used as an indicator for measuring bank capital structure that plays a vital role in determining their profitability. The natural logarithm of the total assets at the end of each year was used to calculate the size of the company. Bank operating expenses are measured using the operational expenses ratio (OER), which shows how gross income was applied to cover operating costs other than depreciation and interest. It is calculated by dividing gross revenue by total operational expenses. A self-created compliance index (CINDEX) consistent with previous compliance studies will be used to gauge the extent of IFRS conformity (Ballas & Tsovas, 2010). The compliance index calculates the difference between what a firm disclosed in its annual report and what was required of it under each type of standard. To demonstrate the banks' adherence to the IFRS we used for this study, a checklist will be created. The researcher chose these criteria because they are crucial to the banking industry and cannot be eliminated. The established checklist and the disclosures made by the banks in their financial statements for the years 2016 through 2020 will next be compared. If the bank discloses the items on the prepared checklist for the relevant IFRS in the annual report, it will receive a score of 1 based on this evaluation, and if it does not disclose the item on the prepared checklist for the relevant IFRS in the annual report under review, it will receive a score of 0. By dividing the total number of standards provided and disclosed by the total number of applicable presentation and disclosure requirements, the compliance ratio is then determined.

Table 3.1: Variable Description, Measurement, and Source of Data

Variable	Type	Label	Measurement	Source
Profitability	Dependent	ROE ROA	$\frac{NetIncome}{Shareholders'equity}$ $\frac{NetIncome}{TotalAsset}$	Annual report of firms under review.
IFRS Compliance	Independent	IFRS	$\frac{totalstandardspresentedordisclosed}{totalapplicablepresentationordisclosurerequire}$	Annual nreports of firms under review.
Size	Independent	Nlog (TA)	Natural Log of total assets	Annual report of firms under review
Operating Expense	Independent	OPE	$\frac{Totaloperatingexpenses - Depreciation}{GrossRevenue}$	Annual report of firms under review.
Capital	Independent	CAP	$\frac{shareholders'equity}{totalassets}$	Annual report of firms under review.

Table 3.2: International Financial Reporting Standards employed for the study.

Standards	Title
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 15	Revenues from contracts with customers

Source: Author-Self Construct (2022)

Classification and measurement in accordance with IFRS 9 apply to all financial assets & liabilities as well as some buy/sell contracts for non-financial items. When agreeing to certain conditions under IFRS 9, a firm must include them as either an asset or liability on the statement of financial position. When it's not instantly identified at reasonable valuation via income and expense accounts, financial assets and liabilities are judged based on their market values and associated expenses.

When a firm owns one or more additional entities, IFRS 10 describes the processes for generating and publishing consolidated financial statements. To ascertain whether an investor controls an investee and, as a result, must consolidate the interests, consider the advice provided by IFRS 10 on how to apply the principle of control. It also defines the term "control," emphasizing it as the cornerstone of consolidation. It also mandates the creation of consolidated financial statements for entities (subsidiaries) controlled by an entity (the parent). The assets, liabilities, equity, revenue, expenses, and cash flows of a corporation are all disclosed in its financial statements or consolidated financial statements. The guidelines outlined in IFRS 15 require businesses to provide comprehensive disclosure on all aspects relating to revenue generation and inflow of cash resulting from any agreements made with clients. Entities must follow IFRS 15 when recording revenue so they can signal that they delivered on their promises and reflect their anticipated entitlements in exchange.

3.7 Justification of Variables

3.7.1 Bank Size

The discussion of the variables that impact the profitability of listed banks in Ghana must take this element into consideration. Tiny banks, those classified as small based on the volume of their assets, perform better than large banks, according to Kosimodo and Doumpos (2006). As a result, a positive correlation between bank size and profitability is anticipated. According to Bikker and Hu (2002), the profitability of banks is positively correlated with their size.

3.7.2 Operating Expenses

Another essential factor to consider when assessing the profitability of banks is Operating Expenses (OE). Many a time, it is believed to have a detrimental effect on the Ghanaian listed banks' profitability. Other wage costs and non-wage costs including rent, taxes, lighting, advertising, directors' fees and allowances, and legal fees are included in operating expenses. Particularly for Public Sector Banks (PSBs), operating expenses somewhat increase due to increasing depreciation, audit fees, and expenses for repairs and maintenance (Bodla & Verma, 2006).

3.7.3 Capital

The association between higher capital levels and profitability levels must be emphasized since banks with larger capital levels can more easily meet regulatory capital requirements and lend out excess capital (Berger, 1995). This made using capital as a variable in this study necessary.

3.7.4 International Financial Reporting Standards

Stakeholders who rely on accounting figures are impacted by the fundamental changes to the financial statement accounts and the related financial ratios, which may have an impact on their investment choices (Leug, Punda, & Burket, 2014). Therefore, examining the consequences of IFRS compliance on business financial performance (profitability) is crucial and even needs to be further researched, especially in emerging nations.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter focuses on discussing empirical findings, analyzing findings, and discussing the ramifications of the study's findings. Additionally, a descriptive statistical table and a correlation analysis of the variables are displayed.

4.2 Descriptive Statistics

Table 4.1 below provides a descriptive summary of the statistics for the study's variables. Below are examples of common indicators for the variables from annual reports. Before running the regression, descriptive statistics can help identify any anomalies or abnormalities in our dataset.

According to Table 4.1, banks generally complied with IFRS disclosure requirements with an average score of 83.8% and a standard deviation of 13.9%. The data also indicated that banks either complied with all IFRS disclosure requirements or part. This demonstrates that the IFRS compliance level in Ghana among banks is varied. However, it is good to note that Banks in Ghana are IFRS compliant.

The data also revealed that the average bank size, which was calculated as the logarithms of total asset value was 6.879 and a standard deviation of 0.49 with a range of 6.213 to 8.34. From the table again, ROA of banks under the year of review had an average of 0.022 with a range between -0.058 and a maximum of 0.096 and a standard deviation of 0.047. ROE recorded an average of 0.288 a range between -0.0358 and 0.478 and a standard deviation of 0.588. The bank's capital was measured based on the short or longterm debt to total assets ratio. According to Gul, Irshard & Zaman, 2011 higher capital levels tend to increase profitability levels since they make it easier for banks to comply with regulatory capital rules. Bank's capital recorded an average of 0.134 and a standard deviation of 0.042 ranging from 0.06 to 0.191.

The operating expenses ratio (OER), which calculates gross income usage by dividing total operating expenses by gross revenue, is used to measure the operating expenses of banks. This ratio demonstrates the percentage of a bank's revenue that goes toward covering operating costs, excluding depreciation and interest. Operating expenses averaged 0.476 with a range from 0.131 to 1.062 and a standard deviation of 0.304.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std Dev	Min	Max
IFRS Compliance Index	50	0.838	0.139	0.5	1
Return on Assets	50	0.022	0.047	-0.058	0.096
Return on Equity	50	0.288	0.588	-0.0358	0.478
Size	50	6.879	0.499	6.213	8.34
Operating Expense	50	0.476	0.304	0.131	1.062
Capital	50	0.134	0.042	0.06	0.191

Source: SPSS Results (2022)

4.3 Correlation Matrix Showing the Relationship among the Various Variables

A correlation study was conducted using the Pairwise correlation coefficient to ascertain and display the strength of the link between the research's variables. The variable bank size, which was once represented by the bank's entire asset, was replaced with a natural log of the size. According to Matolcsy, Tyler, & Wells, (2012), using the bank size variable in its raw form could cause non-linearity problems.

From the table net interest margin, banks' operating expenses, and banks' capital are negatively correlated with profitability and IFRS compliance. This means that the operating expenses incurred over the period and the capital introduced by investors will not influence management's decision to comply with IFRS. These variables are negatively correlated at -0.033, -0.206, and -0.092 respectively. Correlation analysis suggests that bigger banks with higher returns in terms of assets and equity tend to comply better with IFRS standards. In their study published in 2011, Gul, et al observed that larger banks had an upper hand as compared to smaller ones since they could make efficient use of economies of scale for transactions leading them toward better profitability. The amount of information revealed in an annual report may depend on how well a company is performing. If it means achieving greater profits, then managers will likely be encouraged to disclose further details in their annual reports and adhere to IFRS. These variables are positively correlated at 0.185, 0.094, and 0.327 respectively.

Table 4.2: Correlational Analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) IFRS Compliance Index	1.000						
(2) Return on Assets	0.185	1.000					
(3) Return on Equity	0.094	0.917*	1.000				
(4) Size	0.327*	0.127	0.116	-0.127	1.000		
(5) Operating Expense	-0.206	-0.796*	-0.636*	0.095	-0.044	1.000	
(6) Capital	-0.092	-0.064	0.206	0.127	0.210	0.327*	1.000

Source: SPSS Results (2021)

**** p<0.01, ** p<0.05, * p<0.1*

4.4 Regression Results and Discussion

Table 4.4.1: Regression Table

Table 4.1: Effect of IFRS Compliance on Bank Profitability-Return on Equity

Variables	Coef.	Std. Err.	t-value	p-value	[95% Conf Interval	]	Sig
IFRS Compliance Index	0.03	0.0033	8.96	0.000	-0.038	0.097	***
Size	-0.314	0.082	-3.84	0.000	-0.478	-0.149	***
Capital	-10.453	0.913	-11.45	0.000	-12.292	-8.614	***
Operating Expense	-1.081	0.115	-9.41	0.000	-1.312	-0.85	***
Constant	4.158	0.589	7.06	0.000	2.973	5.344	***
R-squared		0.851	Number of obs			50	
F-test		64.198	Prob > F			0.000	

**** p<.01, ** p<.05, * p<.1*

Results for the ordinary least square panel regression model are shown in Table 4.3.1, demonstrating the significant importance of the resilient standard error regression model (P 0.0001). As a result, the regression model is limited to prediction. The model's variables (IFRS, Size, Capital, and Operating Expense) account for 85.1 percent of the variation in Bank Profitability - ROE, according to the corrected R-square of 0.851. A weak but significant negative link between bank profitability, specifically ROE, and the extent of IFRS compliance can be seen in the regression table. This suggests that the amount of IFRS information a bank discloses in its annual reports is unaffected by the size of the bank or bank size. The research also demonstrates that larger businesses often publish less information than do smaller businesses. In addition, a bank's size has little bearing on its ROE. The findings of this study don't line up with earlier disclosure studies, which showed a strong positive relationship between bank size and IFRS optional disclosure compliance levels (Hossain, 2008; Hossain & Reaz, 2007). The results of this study are consistent with those of Ofoegbu and Odoemelam (2018), who found no relationship between the degree of voluntary disclosure and the size of the bank as determined by the sum of its net assets. At a 1% level of significance, the regression result showed a negative and significant correlation between capital and the extent of IFRS disclosure compliance. A negative but significant correlation between operating costs for the bank was also shown in the table. ROE and IFRS compliance have a substantial and positive correlation. This suggests that managers are often driven to provide stakeholders with more information in order to highlight their company's successful financial performance.

Table 4.4.2: Effect of IFRS Compliance on Bank Profitability-Return on Assets

Variables	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
IFRS Compliance Index	0.031	0.003	10.33	0.000	-0.003	0.009	***
Size	0.013	0.007	1.72	0.092	-0.028	0.002	*
Capital	0.509	0.083	6.13	0.000	-0.676	-0.342	***
Operating Expense	-0.114	0.010	10.89	0.000	-0.135	-0.093	***
Constant	0.212	0.054	3.97	0.000	0.104	0.32	***

R-squared	0.805	Number of obs	50
F-test	46.370	Prob > F	0.000

*** *p<.01,* ** *p<.05,* * *p<.1*

The outcomes of the ordinary least square panel regression model are also shown in Table 4.3.2 with a highly significant robust standard error (P 0.0001), demonstrating that the regression model is appropriate for making predictions. Table 4.3.2 also showed an

R-squared value of 0.805, indicating that factors like IFRS, size, capital, and operating expense may account for around 80.5 percent of the systematic variation in bank profitability assessed in terms of ROA. As per the regression table, Bank size revealed a significant positive relationship between bank profitability (ROA) and the extent of disclosure compliance with IFRS. The study revealed a positive and significant relationship with ROA. It is significant at P-value ($P<0.10$). The significant positive association that was found indicates that the size of the bank affects its profitability (ROA) in a significantly favourable way. In the table, there exists a negative but substantial relationship between operating expenses for the bank. There was a significant and positive correlation between ROE and IFRS compliance. This suggests that managers are frequently driven to disclose more information to stakeholders in order to highlight their company's successful financial performance. The findings of this study, however, support the assertion made by Akinyele (2016) that the capital ratio of banks has a significant impact on their return assets (ROA). The relationship between operating expenses and profitability was also made clear in Table 4.2. The association between IFRS compliance and ROA was both positive and substantial, indicating that high levels of firm IFRS compliance have an impact on these companies' profitability as shown by ROA.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The objective of this study was to assess how IFRS compliance affected the financial performance of banks that are listed on the Ghana Stock Exchange. The study also examined the relationship between profitability and elements unique to each business, such as bank capital, bank size, and bank operational expenses. In this final chapter, the key findings of the study and any possible interpretations are summarized. On the practical and policy ramifications of the study, recommendations were also made.

5.2 Summary

By examining how IFRS compliance influenced the financial performance of banks listed on the Ghanaian Stock Exchange, the objective of this study was met, and this adds weight to the results found in earlier research. This report supplements my understanding by addressing the question of whether banks that are publicly traded in Ghana can exploit particular corporate features that have been deemed significant by past research. The annual reports of Ghana's listed banks for the years 2016 to 2020 were examined during the study's execution. A quantitative research design was employed to analyse the variables; banks' capital, banks' operating expenses, banks' size, and IFRS compliance. Panel data was used during the conduction of the study to analyze the banks' reports over a subsequent time period and to determine whether IFRS compliance and the bank-specific attributes will influence the profitability of these listed banks. To assess the compliance levels of the listed banks, a dichotomous scoring approach (1 = standard complied with and 0 = non-compliance with standard) was utilized. The ratio of the total number of standards each firm met to the total number of standards chosen and anticipated to be published in their annual reports, which was eight, was then used to compute each company's overall score for IFRS compliance. The results from the IFRS compliance index showed an average score of 83.8 percent after the analysis of the annual reports for the banks utilized in this study from 2016 to 2020. This implied that Ghanaian listed banks had a reasonably high level of IFRS compliance, which is highly promising. The study's findings also showed a strong correlation between IFRS compliance and listed banks' profitability, notably ROE, while there was a weak but substantial negative correlation between ROE and bank size, bank capital, and operating expenses. The study's findings demonstrated that there were substantial positive connections between IFRS Compliance, Bank Size, Bank Capital, Banks'

Operating Expenses, and ROA when calculating bank profitability.

5.3 Conclusion

There is no otherwise opinion that a high IFRS compliance level is essential not only to the banks themselves but to their stakeholders as well. This is because stakeholders prefer to have an improved reporting structure due to strict IFRS compliance by firms which can provide them with improved transparency and accuracy of the financial reporting quality of banks in Ghana and will help them make informed decisions. The main research findings of this study revealed that there is a significant effect between all four variables (IFRS Compliance, Banks' Size, Banks' Capital, and Banks' Operating Expenses) of the listed banks and their profitability. The results of the descriptive statistics revealed the extent to which Ghanaian-listed banks comply with International Financial Reporting Standards at an average score of 83.8% with a range of 50% to 100% which proves that banks listed on the Ghana Stock Exchange (GSE) are highly IFRS compliant.

5.4 Recommendation

With reference to the fact that there is high IFRS compliance by banks listed on the Ghana Stock Exchange and it consequentially has a positive effect on their profitability, we recommend that all regulatory agencies of the sector, especially Bank of Ghana, churn their focus on ensuring strict IFRS compliance for all banks and other financial institutions in the country and not only the listed firms as this will go a long way to improve stakeholder trust and profitability of these firms.

5.5 Further Studies

Further studies should consider delving into examining the effects of IFRS Compliance on the profitability of firms among the various industries in Ghana and other developing countries (i.e., manufacturing, consumer, and health care)

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